

**Washington State Liquor Control Board Business Advisory Council
Meeting Minutes
April 29, 2004**

Business Advisory Council Members Present:

Stakeholders:

Steve Burns, Washington Wine Commission
Don Campbell, Washington State Sports & Entertainment
Facility Operators Association
George Hancock, Washington Brewers Guild
Gene Vosberg, Washington Restaurant Association
Phil Wayt, Washington Beer & Wine Wholesalers Association
Andrew Baldonado, Beer Institute
Mark Gorman, Distilled Spirits Council of the U.S. (DISCUS)
Molly Howell, Distillers Representatives Association of WA (DRAW)
TK Bentler, Washington Association of Neighborhood Stores
Clif Finch, Washington Food Industry

Liquor Control Board representatives:

Merritt Long, Chairman
Roger Hoen, Board Member
Vera Ing, Board Member
Pat Kohler, Administrative Director
Rick Garza, Deputy Administrative Director

Additional Attendees:

Michael Transue, WA Restaurant Assoc.
Gigi Burk, Crown Distributors
Tom Hedges, Hedges Winery
Katie Jacoy, WA Wine Institute
Dave Ducharme, DISCUS
Jim Halstrom, DISCUS
Sasha ???, Anheuser-Busch

Additional LCB Employees: Lorraine Lee, Director of Licensing and Regulation; Rick Phillips, Chief of Enforcement and Education; Chris Liu, Director of Retail Services; Steve Burnell, and Deborah Belcher.

Welcome

Liquor Control Board Member Roger Hoen welcomed the Business Advisory Council Members, and introduced Paul Gregutt, wine expert and columnist, and Steve Burnell, Liquor Control Board, who were presenting the agency's commissioned Wine Survey and Wine Strategy to the members of the BAC. He also introduced Tom Hedges, Hedges Winery, lunch speaker and host.

Presentation: Wine Strategy and Next Steps

Paul Gregutt began the presentation by giving his background. He has a lot of corporate media experience in large companies (Starbucks, Holland America, etc.). Started writing about wine 20 years ago. He writes a wine column, has written two books, and is engaged full time in writing and consulting on wine. He was approached 5 years ago to develop a wine survey/strategy for the Liquor Control Board. After giving his background he took the BAC members through his written report "Liquor Control Board Wine Program Strategy, 2004-2009". The focus of the study was wine: Yes we are in business to sell wine. Yes we need to make it a viable business. He also referenced the wine pricing report by Dave Pavelchek, Washington State University Social Economic Research Center, and said Pavelchek's conclusion was that pricing in state was competitive, and was not always the lowest, sometimes the highest. He talked about how fast and drastically the wine business is changing, and that the wine industry is a huge asset to the state. Key points he touched on were: merchandizing - recommend four clusters be used; product selection should be reduced and focused; updated signage in stores and indicating ways prices are marked, displays, etc.; new outlets in places they don't exist; new training; policy revised and kept in place; emphasis on customer service. Mr. Gregutt basically covered information that could be found in the report. He also recommended creating a mission statement (wine strategy).

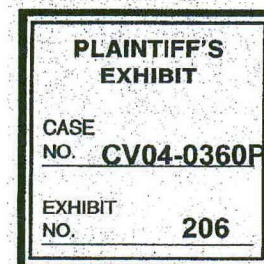
Questions from BAC members:

- **Steve Burns: Was there a study on hours?** - No it was not done.
- **Vera Ing asked about growth.** - Started at 80 wines and now at 275 today. We are at critical mass in selling wines, with a \$3 billion economic impact. Washington's is the only wine industry that is not disproportionately funded by hometown market. There are many small wineries, but we're struggling to reach sales people to benefit Washington hometown wines (most places the hometown market is ignored).
- **TK Bentler: How do you suggest doing Selection of Product?** Small wineries like going to the LCB. - Overall there are two types of products, special listing or regular listing. Need to concentrate

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on regularly listed products without eliminating the really obscure products that don't sell or sit on the shelf for long periods of time.

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- George Hancock: Would like to see LCB do same thing for breweries as they do in wineries. Beer has a large impact. LCB is the venue for small breweries and wineries who can't get their products out in other venues. - Roger Hoen stated that they're working on shelf issues and coolers, etc. It is an issue that LCB is addressing in the future. Pat Koehler talked about LCB's mission in the strategic plan isn't posted and reflected in stores, but they're working on developing customer service through retail and have changed mission statement to reflect that. Need to get it out to stores. Clif Finch stated that from the grocery industries perspective a price differential of 5-20% difference is not fair in the grocery industry. He applauds the study on focusing on the Washington wine industry, however, pricing is a concern for them to compete.
- TK Bentler: Does private sector or state have Washington wine stores in regards to airports? If not why? Steve Burns stated that they tried to do that. The brands just weren't big enough to support the volume needed at sports venues, airports, etc. They were very involved in the last airport bid, but just couldn't do it. Chris Liu said that LCB recognizes that sometime in the future we could be that big, but need to develop an infrastructure in order to move ahead to accomplish this and other things like concept stores, etc. Roger Hoen said the Board would continue to work stakeholders on this issue. Rick Garza stated that the LCB wants to bring back Dave Pavelchek to talk to stakeholders about the report and concerns they have regarding the data of his pricing survey. (Clif Finch would like a conference call prior to that. He also needs recording from the last time Dave Pavelchek presented his information to the Board.)

Comments from Merritt Long

Merritt spoke to the BAC about LCB's perspective and history of how we got to here. The Board needed to assess where we were and where we wanted to go and agreed they needed an outside perspective and help. Spirits is 90 percent of business, yet the shelf space is more than 10% for wine. Grocery stores and wine stores were concerned that we were cheapening the costs of wine. Wineries look to LCB to get their product out. If they don't have the LCB how do they sell their wines? We are all in agreement on Washington products needing to be better represented (only 10-17% of wines are sold in Washington). Pricing is the main topic that all parties need to come to agreement/solution on. The LCB encourages stakeholders to keep working with the LCB to solve these issues.

Licensing and Regulation Update

Lorraine Lee spoke regarding COSTO and it's lawsuit again the LCB. She spoke on the history of the suit, and where we're at in the process. The lawsuit is against the LCB as well as individuals in the agency, and prosecuting attorneys office.

Luncheon Speaker

The luncheon speaker and host for the meeting was Tom Hedges from Hedges Winery. He spoke about his family history and their winery, from its beginnings to the present and it's fit in today's world.

During the lunch hour, Merritt Long, on behalf of the LCB, presented a gift of appreciation to Steve Burns who is leaving the Washington Wine Commission and returning to California.

2005-2007 Strategic Plan and Budgeting Scheduling

Pat Kohler presented a summary of the LCB's Strategic Plan. She spoke on the agency's mission and goals, and budget and decision package timelines. She then highlighted the areas the plan asks the state to partner with LCB:

- Creating strategies to reinvest portions of the revenue earned back into the agency business operation.

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- Recovering costs related to increased need for regulatory and public safety services and growth in number of licensees.
- Fully funding the retail business plan.
- Improving core technology operations.
- Investing in staff training – all levels.
- Funding for HR support functions to improve recruitment and retention.

The plan will be available to everyone on the internet sometime the first week of May. The dollars have not been fine tuned yet. LCB believes the vast majority of moneys they are asking for will be generated through revenues created in the agency's decision packages—not trying to take it from the general fund. There are a lot of opportunities to generate revenues. Merritt Long stated LCB still has a lot of internal processes to go through before they can come up with firm figures. It's hard to comment on at this time. Rick Garza added that as they get figures and approval by the Board, they would work with stakeholders.

Questions from BAC members:

- **George Hancock:** What areas do you see those increased growth coming? Looking to increase 8% in spirits.
- **George Hancock:** Regarding a comprehensive pricing strategy—are you looking at all costs associated in implementing? We are now, such as when opening new stores, did not take into consideration that there are associated costs unasked for in doing business. Merritt Long indicated that the LCB is trying not to have price increases in the next ten years, but without being able to see actual growth figures in the future, can't guarantee that prices won't need to be increased. LCB wants to fund through growth, not price increases. Vera Ing also indicated this is a proposal by Senior Management and the Board is considering, but it's not set in stone.
- **TK Bentler:** Growth in market share? - Chris Liu stated that the liquor stores are a flat line; population goes up at 33% increase in 10 years. The last 20 years have had the same amount of stores. There's been no increase, although there's been a huge increase in population. LCB is looking to add a controlled number of stores to handle growth. Working closely with stakeholders in the process.
- **TK Bentler:** LCB should look at co-location—it seems to be where America is heading—to make it more convenient, to up sales. Chris Liu answered that the LCB is looking at co-location and side-by-side location. *(TK has people who would like to discuss this issue the LCB staff.)*

Legislative Update

Rick Garza touched on the 2004 bills affecting the agency that passed the legislature and were signed by the Governor. Those bills included:

- SHB 2685 - agency request legislation to allow new US military ID cards that have imbedded, digital signatures to be accepted as proof of age for liquor purchases;
- ESB 6737 - which addresses concerns regarding beer and wine price postings;
- HB 2794 - which allows licensees to pay for their liquor purchases with a debit or credit card;
- SB 6480 - allows Washington agricultural state and county fairs to, once a year, count a multi-day fair as one event for the special occasion licensing.
- SB 6655 - this bill allows the LCB to set the certificate fee at a level that will allow LCB to cover the costs of administering this program
- SSB 6584 - allows restaurants with a caterer endorsement to cater on a winery's premises.

Rick also spoke about the approved decision package for the placement of cameras in all the liquor stores (supplemental budget). He also talked about the future of LCB. He recognized that BAC members and others worked hard at getting Roger Hoen confirmed in the Senate. Merritt Long talked briefly about the price posting

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bill—recognizing the work of those involved in getting the bill through the legislature and acknowledged the bill would not have happened without the governor's help as well.

Rick also quickly touched on the Sunday Sales bill that did not pass this year, but it is not a dead issue and will be looked at again in the future.

Business Advisory Council Member Forum: Legislative Wrap Up

Gene Vosberg - Wanted to thank LCB staff for their help and support in the passage of two bills -HB 2794 Credit/Debit Cards and SB 6584 Caterer Endorsement bill.

Clif Finch - They're still looking at a wine tasting bill for next session.

Steve Burns - Talked about WSU funding for viticulture school, but weren't active in the legislative session. The Washington Wine Commission is supportive of Sunday sales. They support all aggressive consumer legislation.

Don Campbell - They're looking next year to see bills that allow stiffer penalties for underage purchase of wine.

Andrew Baldonado - The Beer Institute is just concentrating on promoting sales in Washington

TK Bentler - They will oppose Sunday sales if it comes up again. Looking at strategic plan and still have question about airport wine stores. Market is changing and looking for way to survive. See bills like Sunday sales as a threat to survival. Also talked about MAST training and LCB looking to increase training. Might need to look at structure. They're happy to help engage in legislative efforts. He was asked if stores are going to oppose the wine strategy? TK said he would need to talk to his Board - can't answer that question at this time.

George Hancock - He echoed Clif on retail sampling. Also concerns because breweries increase sales every year and can't make money because of excise taxes, and all other rising costs.

Molly Howell - Stated that Sunday sales is a key issue for DRAW. They support it and will continue to work with others to help get it through.

Phil Wayte - They're fearful of a tax battle in the next legislative session. Asked Rick Garza if legislators are attempting privatization bills next year. Rick said not at this time. Phil then asked if co-location requires a statutory change. Rick didn't think it does.

Mark Gorman - DISCUS stands with the Beer and Wine Wholesalers to resist tax increases. Sampling/tasting is of interest to them, as well as Sunday sales.

Retail Business Plan

Chris Liu presented information regarding the LCB's Retail Business Plan and how it concentrates efforts to address the agency's Strategic Plan goal to maximize revenues to the State's taxpayers. It speaks to our balanced mission of providing control of product while generating increased revenues to the state. (Clif Finch asked Chris Liu to put them down as very interested in the Open 2 Concept Stores).

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Questions from BAC members:

- **Chf Finch:** Regarding the collective bargaining agreement - Has LCB provided input as regards to interests of the agency? - Pat Kohler responded saying we are definitely sitting down and talking to unions and bargaining units and LCB is definitely participating and sharing concerns about our needs in a business standpoint.

Proposed Education Strategy

Vera Ing talked about the proposed education strategy. The Board's activities regarding education include talking to other states that are leading in this area. They have had several speakers present to the Board to talk about the issue of education that relates to areas in enforcement, college communities, etc. There's a real need to partner in developing an education strategy and a need to develop an education council. There is also a need to start targeting portions of drug and alcohol abuse funding for education and training. (There is only \$150,000 earmarked for education in schools across the entire state of Washington.) Other areas of interest are:

- Developing a kit that speaks to the problems that can be provided to schools.
- Contact with coalitions on a regular basis to keep the issue moving forward.
- The Hammer - need emphasis on violations.
- Working closely with local enforcement on alcohol education.
- Building a Cooperative/Coalition.

These are the outcomes and observations of the Board. More and more when talking about liquor advertising, or when issues come up regarding prevention, the community comes to LCB to ask what is the board going to do. It's in statute that the board is to create and education strategy. LCB is working with the College Community Coalition (WWU - Bellevue) and others to build a cohesive plan. There's a lot going on in the state, and LCB doesn't want to waste time and dollars duplicating what is already being done. LCB's main goal is compliance; but, they are also looking at getting strong media program/push to get the message out there. LCB doesn't have a decision yet as to where they're going and how they're getting there. But may go forward to strengthen the statute to create the Education Council. The states that are successful have partnered with folks like BAC members.

Questions from BAC members:

- **George Hancock:** How do you quantify success? Merritt Long's answer was that we measure success based on what we've learned by the presentations from outside folks regarding what's been working/not working. The Board wanted to come to BAC and share some ideas to develop what they think success is. Roger Hoen stated that what LCB wants in the early stages is to get the BAC's input to come up with a balanced useful input, but are not making decisions today. Once they get more input, they will inform BAC members which direction they're going and the member's information will be solicited.

Business Advisory Council Member Forum: What is your industry doing in alcohol education? What are some the possible key leadership roles that the LCB should be involved in: How could you best join the LCB in this strategy?

Andrew Baldonado - Indicated they're working the legislature (all united in our concerns about underage drinking). They will be at \$500,000 amount in cost of promoting safe drinking. He then introduced Sasha ??? from Anheuser-Busch speak on Anheuser-Busch's efforts in responsible drinking/education programs and their efforts against underage drinking. She mentioned the different advertising blitzes to promote responsible drinking. They have a statistician that monitors through stats to see if a campaign is working or not. Besides education programs they outreach partnerships with enforcement groups, etc.. to educate the community to be

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proactive instead of reactive. They use the news media to let the community know what they're doing and how they're giving back to the community. They have four community-based programs: 1) responsible drinking, 2) underage drinking, 3) drunk driving, and 4) college environment. They have server training; designated driver programs (since the program started 20 years ago over 122 million people have either been a designated driver or been driven home by one); family talk about drinking (designed to help prevent underage drinking - parents are the number one influence in a child's life to decide whether to drink or not); college talk (a guidebook for parents with college age students); operation ID (year long programs in the community that support efforts - point of sale promotion that encourages checking IDs.)

Gigi Burk then took over for Crown Distributing Company sharing what Crown Distributing does in developing alcohol education programs in our community. She talked about Crown's efforts with the Mariner's AAA team (Everett Aquasox) to support and emphasize responsible drinking and designated drivers. Talked about Crown's involvement in the Snohomish County DUI Task Force, the summer beer garden's designated driver program, their family talk program, Everett Silvertips Hockey Good Sport Program, etc. Crown Distributing is always looking for input from the community for new ideas and programs. Gigi extended an invitation to the BAC members to attend one of their school events and will try to set something up in the future.

Very positive response from the BAC members on Sasha's and Gigi's presentations. Vera Ing indicated that the LCB should do something on their web page to list all these programs. Clif Finch asked about the promotional materials put out in the aisles of grocery stores etc. There doesn't seem to be a systematic utilization of the media. Sasha indicated that some wholesalers choose to put it on their products and some don't. Anheuser-Busch is working to get all wholesalers to promote the effort.

Mark Gorman - Right now DISCUS is taking a different approach. The medical field has little in the way of education programs, and they are working with physicians to be able to speak to their patients intelligently about alcohol issues. They also developed an alcohol education kit for physicians (DISCUS is willing to work with LCB to get the information out to Washington Physicians). They also developed a standard drinks teaching tool (includes a CD ROM). They are working with groups to deal with college drinking issues. One of the big issues is sale of alcohol to minors (where do the kids get their alcohol--65% from family/friends). On 2000 college campuses they use the CD Rom as a learning tool, along with several other programs. They're encouraged that the industry is getting involved. They recognize that not much can really be accomplished without involvement by industry as well as all other groups, especially on the underage drinking issue.

Molly Howell - DRAW uses a lot of DISCUS' information and are very impressed by the way the LCB works in educating the public regarding underage drinking problems. They are willing and happy to be involved in LCB's efforts.

TK Bentler - Indicated there are a lot of programs by a lot of groups out there. Thinks that if there's a policy to have it all under one agency, to coordinate efforts by all involved to be sure that the best things are being done. Wanted to know how do we tie this all together? Who is best to do this? Thinks coordination helps to sell ideas. He also indicated there needs to be set performance standards and a way to measure success. Should this be the LCB? Training is important to them in the C-Store sector. Should there be training for retailers - voluntary? mandatory? Maybe focus on problem areas and make them mandatory, and leave the other areas as voluntary.

Phil Wayt - He goes to different markets and different environments working on responsible drinking programs. Mark Gorman asked if the legislation (education council) encompasses coordinating with other committees, education programs? Roger Hoen indicated that the LCB needs more input from others on what role is needed and how it relates to the retail-side and enforcement-side; and do we reconcile all needs? He also indicated that we need to communicate better with legislators.

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George Hancock - The small brewers are community people and work closely with other members of the community to do what they can with what education programs are out there. He wonders if the 21-age limit is right? If it's lowered and they're supervised better, would it eliminate some of the unsupervised drinking (i.e., keggers, etc). Should we study what other countries do in regards to youth drinking (although industry would not be looked upon well by trying to promote a younger drinking age)?

Clif Finch - WFI is especially busy right now regarding collective bargaining, so that's where their efforts are right now. However, they are two key issues they working legislatively: point of sale and advertisement/displays. Otherwise they are not overly interested in other issues. There is an interest by the shift in moving into health issues, but there's no link in involving education programs. The retailers need to do more point of sale advertisement on responsible drinking. They say if the wholesalers provide something, they'll do it. We need to influence them to look at programs/advertising that will work well in grocery stores.

Gene Vosberg - Mandatory Alcohol Server Training - they started the program in 1998 and are still strongly involved in this program. Their role is to work with LCB to make sure that our servers in our establishments are well trained and have an awareness of the responsibility they have. The program is under review right now by the board. Looking at how the training can be improved. They're getting feedback from trainers about have to be trained again, but WRA is being proactive in the need for this to be done. One of the things needing to be done in partnership with LCB is to formally do media blitzes on a regular basis. WRA wants to get out there and help their members with compliance checks and are about ready to get that started. Also want regular use of a sale and service policy - making servers sign a pledge so they understand seriousness of efforts

Don Campbell - Talked about Safeco Field's Good Sport program--a comprehensive action plan for influencing fan behavior. Can't stress enough the importance of coordination. Large facility operators need to emphasize that education needs to start with their employees (all their employees). They need to be armed with tools that can help them get the information out, and to find enough ways to repetitively get the word out and to educate staff. Need more in talking about delayed effects of alcohol, and to build a comprehensive program that works. It's a mistake for an operator to be given a license if that licensee is not willing to participate in educational programs. There needs to be something done that guarantees licensee compliance in education -- if not there should be enforcement citations. Keeping focused on our mandate on enforcement and education is important. Would like to see budget to allow long-time officers to be involved in more education programs (schools, etc.)

Roger Hoen - It seems that people will go through all the processes to check ID, and then still sell to people whose IDs show they are not 21. There's a need to put an emphasis on checking closer. Phil Wayte indicated another problem is false IDs. Andrew Baldonado asked if Washington State has graduated licenses (if you get caught drinking you lose your privileges)? What about a scan system that would check the ID's? Chris Liu indicated that he had just gotten back from a seminar that showed that barcoding can be duplicated. So nothing is fool proof.

Rick Garza - Asked the BAC members what they felt was the most effect program in dealing with underage drinking involving parents as educators. Gigi Burk indicated there are materials out there. You need to implement programs in the retail/wholesale arena. Andrew Baldonado said that it's responsibility from child, to parent, etc.

Rick Garza - Asked the members if they've been involved in grants or provided funds to agencies like the LCB to develop education/advertisement regarding underage drinking? Gigi Burk indicated they do education for parents to educate their children and to be responsible. Andrew Baldonado was not familiar with any state or community funded programs in any state to would do that. Mark Gorman said the Ad Council is inviting industry to work on developing advertising. Looking to gear ads more toward parents. Rick Garza indicated

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there are some programs out there that are geared toward getting the message out to community and into the homes.

Vera Ing – She wanted to take this time to thank BAC members for their support of the LCB their willingness to lend support to make our efforts work.

Merritt Long – Also thanked the BAC. He also acknowledged Vera for her participation in getting the education council started, and Roger for his involvement in education efforts. He wanted to reinforce that the Board is equally committed to the effort, and as they hear from other groups they will be sure to keep the BAC members informed.

Next Meeting and Future Meetings

Board Member Roger Hoen indicated that the next Business Advisory Council meeting will be held July 8, 2004, with Pyramid as the possible location.

Meeting adjourned.

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